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SUBJECT: VIETNAM'S PRIVATE SECTOR LABOR MARKET: TIME TO CLEAN UP

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¶1. (SBU) Summary: The Ho Chi Minh City branch of Navigos, one of Vietnam's largest human resources (HR) services companies, reports that its corporate clients are holding employment levels steady in the expectation that wage inflation for 2009 will fall to near zero after years of double digit growth. These companies have adopted a wait-and-see strategy, and have held off making long-term human resource plans until they receive strong signals that external markets are recovering. Other Navigos clients with more foresight (and perhaps deeper pockets) have decided that the slowdown is an opportunity to get their houses in order by hiring Navigos to help them with rightsizing, streamlining and developing corporate culture. End summary.

¶2. (SBU) On February 20, ConGenOff met with Winnie Lam and Nguyen Thi Minh Tam of Navigos Group, one of Vietnam's premier HR consulting firms, to discuss the state of Vietnamese business during the worldwide economic downturn.

THE LABOR MARKET: CASH IS KING

¶3. (SBU) Our Navigos contacts said that, notwithstanding the beating that Vietnamese exports have taken recently, strong internal consumption has helped Navigos clients offset losses abroad. According to Winnie Lam, internal growth remains strong because the country continues to be a cash-based economy. As such, it is less affected by the external financial maelstrom and has no exposure to derivatives markets. Indeed, because of the internal market, Navigos' more optimistic clients are expecting across the board growth in the low single digits for ¶2009.

¶4. (SBU) Such optimistic assessments have made many firms reluctant to conduct layoffs, with only the manufacturing and marketing sectors substantially affected. Of these, manufacturing has been hit hardest, though Lam noted that most cuts have occurred in rural provinces rather than in urban areas. Navigos clients in sectors such as pharmaceuticals, healthcare, and even retail banking continue to grow, though employers in these sectors do not plan to add substantially to current staffing levels during 2009. Lam told ConGenOff that one retail banking client plans to open 100 new branches in 2009, but expects to staff these new branches entirely by repositioning existing staff. Looking forward, Lam believes that the professional services and World Trade Organization (WTO) compliance fields (e.g., legal services), in addition to pharmaceutical and healthcare industries, are poised for rapid job growth in the near future.

SALARIES TAKE A HIT

¶5. (SBU) After nearly a decade of enormous year-on-year salary increases (2008 saw an average salary increase of 19.68

percent), the labor market in Vietnam has come back down to earth in 2009, Lam continued. Navigos reports that approximately half of their client base of more than 8,000 companies throughout Vietnam will freeze salaries for 2009, while the other half plan increases of less than 5 percent. (Note: With inflation currently running just over 16 percent year-on-year as of February, real salaries are shrinking.) This fact, coupled with a worsening labor market and frequent newspaper stories reporting on unemployment, has given employers more leverage in contract negotiations with employees. Though Navigos' clients continue to experience poaching of top performers in highly skilled industries, they report that young, rank-and-file employees have been more cautious about seeking opportunities outside the firm or making exorbitant salary demands inside it.

TRENDS: REWRITING THE PAST

16. (SBU) Lam believes the Vietnamese business community is not taking a proactive stance in these difficult economic times. Most companies have become more defensive, and have taken to quarterly or month-to-month budgeting. According to Lam, businesses are waiting for some sign that external markets are recovering before making any substantial, long-term employment moves. Most expect flat budgets for the foreseeable future, and have delayed or abandoned projects that require major capital outlays.

17. (SBU) Instead, Lam believes, companies are using the general downturn as an excuse to 'clean up the mistakes of the past few years,' which saw large-scale salary increases with no growth in per-employee productivity rates. Until now, companies have never done the back-end research necessary to determine how escalating salaries have impacted profitability. Though firms have finally begun to internalize the idea of retention, Lam asserted, they have gone about it the wrong way (solely through

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salary hikes) for the past few years. Having observed a recent increase in the number of firms interested in non-monetary retention policies, Lam believes Vietnamese companies may finally be ready to grapple with more complex HR concepts like employee-based return on investment (ROI). For example, one client recently began to measure individual performance of sales force and craft individual incentives, leading to a 25 percent increase in sales in the first few months of the project. Once these concepts have been incorporated, Lam hopes that Vietnamese firms will begin focusing on improving process structure, so as to better manage both retention and salaries.

COMMENT:

18. (SBU) It's encouraging that the economic downturn has exposed weaknesses that are already creating demand for top-flight HR management firms able to effectively develop corporate culture, improve business processes, rationalize workforces and streamline organizations in Ho Chi Minh City.

19. (U) This cable was coordinated with Embassy Hanoi.
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